STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

Implementation of Restructuring Legislation (Chapter 854, Statutes of 1996, AB 1890): Renewables	)))	Docket No. 96-REN-1890

Comments of the Geothermal
Energy Association (GEA)

in response to

CEC Staff Draft
Policy Report on AB 1890

Renewables Hearing
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GENERAL COMMENTS

The geothermal industry is portrayed in the staff draft as not requiring the assistance from the fund that the other renewables require, and is therefore considered “competitive”. In the agreement made between the renewable industry, geothermal did choose to emphasize developing new projects, rather than have its funds earmarked for existing projects. This was the desire of the major developers in the industry and was also required to pass the test of 40% of the money going to new and emerging. In that context the new projects would be only geothermal projects with competition within the geothermal industry only. The internal allocation made by the renewable industry was in no way meant to imply that either new or existing geothermal projects would be fully competitive with market prices anticipated during the transition period.

The most serious problem with the staff draft is that it will fail to bring new renewable generation to market. The new construction account provides only $59 million to new projects, while the customer rebate account of $81 million is split approximately 50% to existing projects and 50% to new. Assuming an allocation of approximately $40 million to new, this leaves only about $100 million ($59 + $40) of the entire AB 1890 fund earmarked for new construction, which is less than 20% of all the potentially available funds. This flaw is created by an over-allocation of funds to emerging technologies and an over-reliance on the untested customer rebate mechanism.

The staff report attempts to be all things to all stakeholders and in so doing there is a great diversity of programs. This will make the program difficult to administer and will cause those desiring to use the funds to attempt to use multiple programs to assure that they obtain something. The reason the renewable industry proposed to break up the money by industry was to avoid just that result. The staff, by earmarking funds for existing Biomass, Wind and Solar Thermal industries but choosing to throw geothermal into an across technology "competitive" category, voids the consensus developed by the industry. Geothermal is supportive of competitive programs. However, by providing others earmarked funds for existing projects and having geothermal participate in across technology competitive programs, the geothermal industry believes it is not being treated fairly. From past CEC Technology Characteristic Reports and the result of the BRPU bidding it has been demonstrated that wind and geothermal can be very competitive with one another.

Section 383 (b) of AB 1890 sets forth five recommendations for the use of the renewable funds by the Commission. The first recommendation is to foster a renewable resources market and "reward" the most cost-effective generation technologies(emphasis added). In our view, the staff report punishes geothermal because it is considered the most cost-effective generation technology.

The combination of many different programs discriminates against new geothermal development because of the reliance on customer rebates and the small, piecemeal allocation of funds to the loan program. Both of these approaches favor wind projects, which can be developed in much smaller increments.

Renewable developers need certainty to go into the market. The staffs proposal that requires new projects to annually bid for the funds breaks up the money into even smaller boxes and will minimize the amount of money available to leverage private investment in commercial-scale projects.

GEOTHERMAL SPECIFIC ISSUES

The GEA proposal indicated that the money earmarked for the geothermal industry (27%) would be broken down with 5% to existing projects as a production incentive and 22% to new projects using a financial assistance program and customer rebates to provide support for new geothermal projects. The staff program of financial assistance suggests that the money paid back into the fund from projects could go to other programs or be returned to the ratepayers. The GEA objects to the funds being taken out of the program. The GEA suggested the revolving loan type program to make better utilization of the money for the geothermal industry. If the money is not to continue in the program as anticipated the GEA would prefer to have grants made directly for projects, to maximize the use in the geothermal industry.

The discussion of customer rebate programs indicates that large customers would not be eligible for the program. In starting such a program large customers should not be discriminated against. Possibly establishing how much of the program would be directed to small and residential customers would be more appropriate. The stability that renewables will provide, price-wise, will be a long run benefit to large customers. The residential and small commercial customers will likely buy renewables because they are "green." Both of these aspects should be tested in the transition period in any program directed to involving customer rebates. Also, the distributing of funds over all direct access sales made during a period would make a supplier participating in direct access sales uncertain as to what additional revenue would occur. The GEA visualizes the funds being awarded to those transactions in which marketers or suppliers of renewable power have entered into contracts for over five years with the smallest premiums for the purchase of renewable power.

RECOMMENDATIONS

The GEA recommends that the Commission:

(1) shift $54 million (10% of the total AB 1890 funds available) of emerging technology funding to new resource development;

(2) shift $27 million (5% of the total AB 1890 funds available) of customer rebate funding to new resource development, especially in recognition that few, if any, renewable megawatts may qualify for the customer rebate program in the early years of the transition period unless companies renegotiate existing contracts or build new generation;

(3) design the loan fund program to allow solicitations in the early years of the transition period, thus enabling projects to proceed with permitting, development and financing, and limit no project to receive more than 50% of the funds available; and

(4) either insure that the loan funds will revolve and thus remain available to support new resource development or provide the money as a grant rather than loan.

(5) assure, in the case of geothermal, that a wide variety of projects qualify for new money as long as the marketing of the power associated with the project doesn't deliver additional power to a utility under an existing QF contract. For example, drilling wells, improvements of resource utilization and productivity and plant expansions - all which would allow existing facilities to market additional power outside of existing QF contracts. .

We do appreciate the opportunity to express our views and compliment the staff for the significant effort to move the process along at an expeditious rate.

Respectfully submitted,

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